

GAO

United States General Accounting Office

Report to the Ranking Minority Member,
Committee on Armed Services, U.S.
Senate

September 1998

INVENTORY MANAGEMENT

More Information Needed to Assess DLA's Best Practice Initiatives



19981015 064

**National Security and
International Affairs Division**

B-280241

September 2, 1998

The Honorable Carl Levin
Ranking Minority Member
Committee on Armed Services
United States Senate

Dear Senator Levin:

As requested, we reviewed and assessed the Defense Logistics Agency's (DLA) schedule for implementing best commercial practices for inventory management. Section 395 of the National Defense Authorization Act for Fiscal Year 1998 required the Director of DLA to develop and submit to Congress a schedule for implementing best commercial practices for the acquisition and distribution of nine categories of consumable-type supplies. The act defined "best practices" as including the prime vendor concept and other techniques the DLA Director determines will reduce inventory levels and costs and improve the responsiveness of the logistics system to user needs. The act also requires that the schedule provide for the implementation of such practices to be completed within 3 years of enactment, or by November 2000. The Under Secretary of Defense for Acquisition and Technology submitted this schedule on May 19, 1998.

This report assesses the extent to which DLA's schedule effectively provides for the implementation of best practices within the time frame specified in the act. Specifically, we assessed whether the schedule (1) described the extent to which the initiatives cover each supply category, (2) established key performance indicators to measure the overall impact the initiatives will have on logistics costs and efficiency of operations, and (3) provided criteria and plans for expanding or fully implementing the initiatives to cover the entire supply category.

Background

The Department of Defense (DOD) operates a worldwide logistics system to buy, store, and distribute inventory items. Through this system, DOD manages 4.3 million types of consumable items (e.g., food, clothing, and hardware), of which about 4 million are managed by DLA.¹ Traditionally, DLA buys consumable items in large quantities, stores them in wholesale distribution depots until they are requested by the military services, and then ships them to the service facility where the items are used. Each year, DLA spends billions of dollars to provide these services. For example, in

¹Consumable items are discarded after use rather than repaired.

fiscal year 1997, DLA estimated that its supply costs were \$12.4 billion and that its inventory on hand was valued at \$9.8 billion.²

Over the last 20 years, we have reported that DOD's inventory management practices are costly, create unnecessary inventory levels, provide poor customer service, and generate excess and obsolete inventory. For these reasons, we identified DOD inventory management as a high-risk area for fraud, waste, and abuse.³ On past occasions, to help address these problems, we have issued several reports at your request on leading-edge business practices used by the private sector to achieve savings and improve operations.⁴ Our reports show that certain leading-edge concepts provide inventory users with a capability to order supplies as they are needed and then deliver those items directly to the customer within hours after the order is placed. Ordering supplies only as they are needed, combined with quick logistics response times, enables companies to reduce or eliminate inventory levels, buy only the items that are currently needed, and reduce overall supply system costs. Because we believe these practices have direct applicability to DOD's operations, our reports recommended that DOD test these concepts and expand them where feasible.

DOD agrees with the need to adopt best practices and has begun to improve its business operations. In November 1997, the Secretary of Defense issued the Defense Reform Initiative report, which called for a revolution in DOD's business affairs and identified a number of reengineering initiatives aimed at adopting modern business practices to achieve world-class standards of performance.

Results in Brief

DLA's schedule provides information on 73 initiatives it identified as best practices for improving the acquisition and distribution of certain categories of consumable supplies. Although we are encouraged that DLA has established these initiatives, the schedule does not provide adequate

²The \$12.4 billion supply costs include the cost of items purchased from suppliers and the costs associated with managing, storing, and distributing inventory.

³In 1990, we began a special effort to review and report on the federal program areas we identified as high risk because of vulnerabilities to fraud, waste, abuse, and mismanagement. This effort, which was supported by the Senate Committee on Government Affairs and the House Committee on Government Reform and Oversight, brought a much-needed focus on problems that were costing the government billions of dollars. We identified DOD's inventory management as a high-risk area at that time because levels of unneeded inventory were too high and systems for determining requirements were inadequate.

⁴See Related GAO Products for a listing of reports that discuss DOD's logistics systems and our best practices analyses.

information to assess whether it effectively provides for the implementation of these practices to be completed by November 2000, as required by the fiscal year 1998 Defense Authorization Act. Specifically, the schedule does not contain information on the percentage of a supply category that will be affected by the initiatives. Consequently, users of the schedule are unable to determine the magnitude of impact the initiatives are intended to have. Also, the schedule does not present metrics or indicators that will be used to determine whether the initiatives are achieving the desired results. This information is critical to determine whether readiness and sustainability goals are being met and cost goals are being achieved. In addition, the schedule does not provide milestones necessary to measure progress toward covering the entire supply category by the implementation date.

Schedule Does Not Provide Sufficient Information to Assess Best Practices Initiatives

The schedule contains one or more initiatives for each of the nine supply categories listed in the act, except for commercially available electronics, which had no initiatives. The schedule also contains initiatives for six other categories of supplies not listed in the act. In total, the schedule contains 73 initiatives aimed at improving DLA's inventory management operations. Many of the initiatives seek to increase DLA's reliance on the private sector to purchase, store, and distribute supplies. The initiatives contain schedule milestones that generally consist of contract award dates. For some initiatives, the schedule provides additional information such as location, geographic region, or types of items covered.

The schedule, however, does not (1) contain information on the extent to which the initiatives cover each supply category, (2) establish key performance indicators to measure the overall impact the initiatives will have on logistics costs and efficiency of operations, and (3) provide criteria and plans for expanding or fully implementing the initiatives to cover the entire supply category. Without plans that include milestones and details for when, where, and how the initiatives will be tested, evaluated, and expanded, there is no baseline for determining or measuring the significance of these initiatives or the progress that should be expected in completing the implementation of best practices within the time frame specified in the act. DLA officials stated that planning information was not provided for the initiatives because of the uncertain nature of the initiatives.

DLA's Schedule Contains Four Types of Initiatives

The 73 initiatives in DLA's schedule can be grouped into 4 categories: 44 contracting initiatives, 15 prime vendor programs, 5 electronic commerce

initiatives, and 9 "other" types of initiatives. The contracting initiatives include long-term contracting, corporate contracting, and direct vendor delivery contracts. Under a long-term contract agreement, DLA agrees to purchase items from a vendor for 1 or more years. Corporate contracting initiatives involve the consolidation of a number of different DLA requirements with the same vendor into one contract. Direct vendor delivery contracts require the vendor to deliver items directly to base-level locations, bypassing the traditional DLA warehouse and distribution operations. In some cases, these concepts are combined in one initiative. For example, one initiative for aviation items is a long-term corporate contract that includes a provision for direct delivery of items to the DOD customer.

The 15 prime vendor initiatives are designed to transfer a portion of the traditional DOD inventory management responsibilities to suppliers. Under this concept, a single vendor (known as a prime vendor) buys inventory from a variety of suppliers and stores the inventory in its warehouse. The DOD customer orders supplies from the prime vendor using electronic ordering systems, and the prime vendor then retrieves the items from its warehouse and delivers them to the customer.

The five electronic commerce initiatives involve the use of the Internet and electronic catalogs to provide DOD customers an improved system for ordering supplies. These initiatives provide the capability for a customer to search the numerous items available in DLA's and vendors' catalogs for the item that best suits their needs. The customers can compare similar products and prices and then place their orders directly from the catalogs.

The nine other initiatives consist of three medical and pharmaceutical, two food, and four fuels initiatives that did not fall into the three categories discussed above. For example, one initiative deals with the purchase of electricity to support DOD facilities, another initiative provides a mail order pharmaceutical service to DOD eligible customers.

Schedule Information Is Inadequate

Table 1 summarizes the initiatives in DLA's schedule, including whether the schedule provided an estimate of the initiative coverage, key performance metrics, and expansion plans for each supply category. The sections that follow the table contain our assessment of the schedule information provided for each supply category. These sections briefly describe the DLA initiatives, the nature and extent of specific schedule information contained in the plan, and our observations on this information. In no case

did the schedule contain information on the percentage of a supply category that will be affected by an initiative, key indicators that could be used to determine if the initiatives are achieving the desired results, or milestones necessary to measure progress toward covering the entire supply category by the implementation date.

Table 1: Our Assessment of DLA's Schedule

Supply category	Number of initiatives	Did the schedule contain an estimate of supply category coverage?	Did the schedule contain key performance indicators for the supply category?	Did the schedule contain expansion plans to cover the supply category?
Listed in the act^a				
Medical and pharmaceutical	8	No	No	No
Food	6	No	No	No
Clothing and textiles	2	No	No	No
Commercially available electronics	0	Not applicable	Not applicable	Not applicable
Construction	1	No	No	No
Industrial	2	No	No	No
Automotive	5	No	No	No
Fuels	4	No	No	No
Facility maintenance	1	No	No	No
Not listed in the act^a				
Aviation	15	No	No	No
Batteries	3	No	No	No
Material handling equipment	2	No	No	No
Land-based systems	3	No	No	No
Maritime systems	5	No	No	No
Other	16	No	No	No

^aSection 395 of the National Defense Authorization Act for Fiscal Year 1998.

Medical and Pharmaceutical Supplies

The schedule contained two prime vendor, three electronic catalog, and three other initiatives for medical and pharmaceutical supplies. The two prime vendor programs were fully implemented between January 1993 and November 1996. Our past work found that these two initiatives were some of the most successful DLA initiatives to date. To implement these programs, DLA established a schedule to test and evaluate the prime vendor concept and a specific schedule to expand this program to other

DOD locations. These milestones provided a basis to measure DLA's progress toward full implementation. According to other information, DOD's use of prime vendors at over 200 medical facilities saved over \$700 million and covered 77 percent of DLA's sales of medical supplies in fiscal year 1997.

The three electronic catalog initiatives were for dental, optical, and laboratory supplies. Under these programs, catalogs listing inventory items available from certain suppliers will be accessible electronically by DOD customers. The schedule information for these programs consisted of estimated contract award dates for the fourth quarter of fiscal year 1998.

The three other initiatives involve the establishment of a national mail-order and retail pharmacy network. The schedule information for these initiatives consisted primarily of contract award dates.

Food Supplies

The schedule contained one prime vendor, three contracting, and two other initiatives for food items. The prime vendor program is designed for a vendor to buy, store, and distribute food items to military dining facilities nationwide and overseas. The schedule indicated that this initiative has been fully implemented in the continental United States, and provided regional contract award dates for the Europe and Pacific regions and estimated award dates for four other overseas regions. The schedule, however, did not indicate the extent to which the prime vendor would actually be used by DOD facilities within each region, a planned activation date for those locations, or a projected date when the prime vendor would be in place at all applicable locations. The three contracting initiatives involve long-term and direct delivery concepts. The contracts cover food service equipment, certain rations, and ultrahigh temperature milk. For these initiatives, the schedule provided actual or planned contract award dates and other contract information as well as some limited schedule information related to concept testing and evaluation.

The two other initiatives are related to the handling and delivery of fresh fruits and vegetables. The schedule identifies potential customers and contract information.

Clothing and Textiles

The schedule contained two prime vendor initiatives for clothing and textiles. The first prime vendor program, established in November 1995, was designed for the prime vendor to buy, store, and distribute recruit clothing items to the Air Force's recruit induction center at Lackland Air Force Base, Texas. Air Force and DLA officials stated that this program is

considered to be a successful demonstration of the prime vendor concept but that DLA does not plan on expanding it to other DOD facilities.

According to DLA officials, the second prime vendor program is being designed differently. Under this program, DLA plans to buy the inventory and contract for the prime vendor to store and distribute the items. The extent of the schedule information provided for this initiative was an estimated June 1998 contract award date for a prime vendor to support 12 states in the Southeast region of the United States and a contract award date no later than June 1999 for two additional states. The schedule, however, did not indicate the extent to which the prime vendor would actually be used, a planned activation date for locations, or a projected date when the prime vendor would be in place at all applicable locations. Also, the schedule did not identify the percentage of future clothing and textiles sales or the percentage of items that DLA expects will be covered by these initiatives. Our review of DLA sales records indicated that only 2 percent of DLA's 1997 clothing and textiles sales were conducted through prime vendors, and DLA projects that these sales will increase to only 11 percent by fiscal year 2001.

Commercially Available Electronics

The schedule did not describe any initiatives for commercially available electronics supplies. According to the schedule, DLA canceled a prime vendor program during contract negotiations because the Air Force had changed the scope of the contract. DLA officials stated they were considering other alternatives in this area, but no specific initiatives had been defined as of June 1998.

Construction Supplies

The schedule contained one prime vendor initiative for construction supplies. Under this program, DLA plans to have a prime vendor provide bulk lumber and plywood to military bases. The extent of the schedule information consisted of a May 1998 planned contract award date for the first two regions, an October 1998 estimated award date for the remaining regions within the continental United States, and a planned award date of December 1998 for overseas locations. The schedule did not indicate the extent to which the prime vendor would actually be used within each region, a planned activation date for those locations, or a projected date when the prime vendor would be in place at all applicable locations.

Industrial Supplies

The schedule contained two prime vendor initiatives for industrial supplies. One prime vendor program is designed to provide most of the consumable items needed to support the C-130 propeller repair shop at the Warner Robins Air Logistics Center. The extent of the schedule

information was the contract award date of October 1996. The second prime vendor program is designed to provide common-type items used in the overhaul, repair, and maintenance of weapon systems, such as bolts, screws, and rivets. The extent of the schedule information was a contract award date of May 1998 for one location and June 1998 for three other locations.

The schedule did not contain an implementation plan for either prime vendor initiative in this category. Specifically, the schedule did not identify all the locations where the prime vendor could be expanded, time frames for future locations to begin using the vendor, or a projected date when the prime vendor would be fully implemented.

Automotive Supplies

The schedule contained two prime vendor and three contracting initiatives for automotive supplies. The first prime vendor contract, awarded in April 1998, is for automotive parts used overseas. The second prime vendor program, called the fleet automotive support initiative, is currently designed to cover 2,100 different types of parts. DLA planned to award this contract in April 1998. Under this program, the schedule identified 11 potential geographic regions to be serviced by a prime vendor but only 2 DOD facilities within these regions that will initially use the concept.

The schedule did not contain an implementation plan for either prime vendor program in this category. Specifically, the schedule did not identify milestones for a concept test and evaluation phase, all locations where the prime vendor could be used, time frames for when future locations would begin using the vendor, or a projected date when the prime vendor would be fully used by all applicable DOD locations.

The schedule contained three contracting initiatives for automotive supplies. These initiatives involve a combination of corporate contracting, long-term contracting, and direct vendor delivery concepts. The schedule provided a range of actual and estimated contract award dates for these initiatives.

Fuels

The schedule contained four other initiatives for demonstration projects to improve energy management. The schedule information for these initiatives consisted of contract-related dates for two of the initiatives but no schedule information for the other two initiatives.

Facility Maintenance Supplies

The schedule contained one prime vendor initiative for facilities maintenance supplies. This program, called the maintenance, repair, and

operations prime vendor program, was characterized by DLA as a major program contributing to achievement of several of DLA's strategic objectives. Under this program, a supplier is expected to provide total material support to operating locations for items such as small tools, paint, and hardware supplies. This program was also highlighted in the Defense Reform Initiative report as one that captures the "best of class" in industry standards for delivery, returns for excess material, surge capabilities, and customer service. The schedule included two contract award dates (Dec. 1997 and Jan. 1998) for seven states in the Southeast region of the United States. DLA estimated potential sales of \$200 million a year if all 73 installations in the Southeast region used the program. Also, the schedule calls for a contract award date of July 1998 for prime vendor contracts nationwide and December 1998 for the Europe and Pacific regions.

Even though the schedule contained expected regional contract award dates, it did not contain an implementation plan. Specifically, the schedule did not include milestones for a concept test and evaluation phase, indicate the extent to which the prime vendor would actually be used within each region, identify a planned activation date for applicable locations, or project a date when the prime vendor would be fully implemented. Additional DLA records indicated that the absence of this type of information could be misleading. For example, the schedule states that regional prime vendor contracts will be established nationwide by July 1998, but DLA records indicate that only 40 of a potential 243 installations nationwide are scheduled at this time to use the program.

Aviation Supplies

DLA's schedule contained 1 prime vendor and 14 contracting initiatives for aviation supplies. DLA is designing the prime vendor program to provide consumable items to maintenance depots that repair engines and weapon systems. The schedule identified six potential repair depots to use this program but did not provide any implementation dates. Also, the schedule did not include milestones for a concept test and evaluation phase, indicate the extent to which the prime vendor would actually be used, identify a planned activation date for applicable locations, or project a date when the prime vendor would be in all locations.

The 14 contracting initiatives include a combination of corporate, long-term, and direct delivery contracts for a variety of aviation parts, such as fasteners, engine parts, and cleaning compounds. The schedule provided actual or planned contract award dates for most of the initiatives.

Batteries

The schedule contained three contracting initiatives for batteries. These programs include long-term and direct delivery contracts. The schedule information for these initiatives consisted of the year that each contract was awarded and other contract information.

Material Handling Equipment

DLA's schedule contained one prime vendor and one contracting initiative for material handling equipment supplies. The prime vendor program is designed to provide material handling supplies and pallets used at distribution depot in two regions; the schedule indicated that there were at least 13 potential customers in one region, but did not identify any potential customers for the second region. The schedule information consisted of a June 1998 planned contract award for one region but did not include milestones for a concept test and evaluation phase, indicate the extent to which the prime vendor would actually be used within each region, identify a planned activation date for applicable locations, or project a date when the prime vendor would be in place at all locations.

The one contracting initiative is a long-term contract for parts used to support the 463L cargo handling system. DLA indicated 13 U.S. locations, as well as overseas locations, that use these parts but plans to award a contract that covers only 2 of these locations. The schedule information consisted of a planned contract award date of September 1998.

Land-Based Vehicles

DLA's schedule contained two prime vendor and one contracting initiative for parts supporting land-based vehicles, such as trucks and aircraft towing tractors. The first prime vendor is designed to provide over 2,000 items needed to support the M9 Armored Combat Earthmover. The second prime vendor program is designed to provide supply support for the M939 series 5-ton truck. The schedule indicated an estimated award date of August 1998 for the first initiative, but there was no schedule information provided for the second initiative.

The schedule did not contain an implementation plan for either prime vendor program. Specifically, the schedule did not include milestones for a concept test and evaluation phase, indicate the extent to which the prime vendor will actually be used by DOD operating locations, a planned activation date for those locations, or a projected date when the prime vendor would be fully implemented.

The one contracting initiative is a long-term contract covering parts for cranes and aircraft towing tractors. The schedule information consisted of a planned contract award date and other contract information.

Maritime Systems

The schedule contained five contracting initiatives for maritime system supplies. These five initiatives involve a combination of corporate contracting, long-term contracting, and direct delivery concepts. The contracts cover a range of items, including valves, filters, and pumps used on Navy vessels. The schedule provided planned contract award dates for these initiatives.

Other Categories of Supplies

The schedule contained 14 contracting initiatives for other categories of supplies and 2 electronic commerce initiatives. Other categories of supplies include industrial gases, fire fighting equipment, metals, and water purification systems. The contracting initiatives include a combination of corporate contracting, long-term contracting, and direct delivery concepts. The schedule generally consisted of actual or estimated contract award dates and other contract information.

The first electronic commerce initiative, called the Electronic Commerce Mall, is designed to allow DOD customers to order supplies using the Internet. It also provides the customer with the capability to search for, find, and select items. The schedule information consisted of the date that the latest version of the initiative was fielded to DOD customers. The second electronic commerce initiative is to place suppliers' catalogs on electronic ordering systems that are accessible to DOD customers. The schedule information consisted of the fiscal year that contracts were awarded for seven electronic catalogs.

DLA Believes Schedule Initiatives Are Uncertain

DLA officials stated that planning information was not provided for the initiatives because of the uncertain nature of the initiatives. The officials stated that many initiatives listed in the schedule are tests that may not become full-scale programs if they do not meet the criteria of (1) providing consistently high quality materials to the warfighter at the time and location they are needed and (2) overall savings to DOD. In addition, DLA does not have the authority to require the military services to participate in these programs. Therefore, DLA's schedule did not predict the extent to which each military installation would use these initiatives.

DLA, however, has been able to develop such implementation plans for other initiatives, including its most successful ones to date. For example, when DLA implemented the prime vendor program for food and medical supplies, it developed schedules with specific dates for concept testing and evaluation, expansion to other sites, and full implementation. This

information provided a basis for measuring the progress DOD was making in adopting these concepts.

Conclusions

Although DLA's best practices implementation schedule identifies a variety of initiatives, it does not contain the information necessary to assess implementation progress, the initiatives' use in any particular supply category, or the results of the initiatives as measured in terms of cost, service, and readiness. Such information is essential for oversight by Congress and DOD managers as they seek to determine whether the initiatives are being implemented in a timely manner over the desired scope of operations and are achieving the intended results.

Recommendations

To develop a more effective implementation schedule, we recommend that the Secretary of Defense direct the Director of DLA to revise its schedule. For each supply category, the schedule should identify the percentage of future sales or percentage of the items managed that DLA projects will be covered by the initiatives, key performance indicators to measure the overall impact the initiatives will have on logistics costs and efficiencies of operations, and plans for expanding or fully implementing the initiatives. For prime vendor initiatives the schedule should provide specific information on (1) milestones for testing and evaluating each concept, (2) potential implementation sites, (3) planned dates for implementing the practices at the potential sites, and (4) the projected date that implementation will be completed.

Matter for Congressional Consideration

In commenting on a draft of this report, DOD indicated that it does not plan to revise the schedule in a manner suggested in our recommendation. If Congress decides it wants more information regarding DOD's plan to implement best practices over the next 3 years, it may wish to consider requiring DOD to supplement the information in each supply category with the type of information listed in our recommendation.

Agency Comments and Our Evaluation

In commenting on a draft of this report, DOD agreed that more information is needed to fully assess DLA's best practice initiatives, but disagreed with our recommendation that DLA's schedule should be revised to provide that information for each supply category. DOD stated that the information contained in the schedule is the best available at this time and that the specific items that will be covered by the initiatives and specific

performance measures are subject to negotiations with potential contractors.

DOD also disagreed with our recommendation that DLA provide key implementation information for prime vendor initiatives. DOD stated that the pharmaceutical, medical, and subsistence prime vendor initiatives were already completed, one of the clothing and textile prime vendor programs was tested and would not be expanded, and three other prime vendor initiatives discussed in the schedule were evolving, and expansion depended on successful testing and customer commitment to use the program. Rather than revise the schedule to provide the information we recommended, DOD suggested that DLA provide annual updates for each of the next 2 years detailing progress in expanding the initiatives listed in the schedule.

Although we agree that the identification of specific items to be included in the prime vendor initiatives and performance metrics are subject to negotiations with potential contractors, these issues are separate and distinct from specific goals, objectives, milestones, and key performance indicators that should be a part of DLA's strategy to adopt best practices within the 3-year time frame specified in Section 395 of the National Defense Authorization Act for Fiscal Year 1998. We also agree that the prime vendor programs are evolving, and that they depend on success at test sites and customer commitment to work effectively. While we recognize these uncertainties exist, we believe that should not preclude DOD from establishing target goals, objectives and milestones that can be measured and tracked. Without such information, Congress and DOD managers would have limited oversight in assessing the progress and impact of best practices on improving DOD's management of consumable items. Since DOD disagreed with our recommendation to revise DLA's schedule, we added a Matter for Congressional Consideration concerning whether Congress may want DOD to supplement the schedule information it has provided.

Scope and Methodology

Our analysis of DLA's schedule was based on our prior work comparing DOD and private sector logistics practices, the information contained in DLA's schedule, and discussions with DOD officials. We examined each category of supply to determine if it contained initiative coverage information, detailed expansion plans, and key performance metrics we have found in other successful best practice strategies.

We interviewed officials at DLA Headquarters, Fort Belvoir, Virginia, and obtained detailed information about ongoing and planned initiatives from the Defense Supply Center Columbus, Ohio; Defense Supply Center Richmond, Virginia; Defense Supply Center Philadelphia, Pennsylvania; and Defense Energy Support Center, Fort Belvoir, Virginia. We also obtained and analyzed information from these organizations on inventory levels, response times, operating costs, and other related performance measures. In addition, we used information from our related reports that have been issued since 1991.

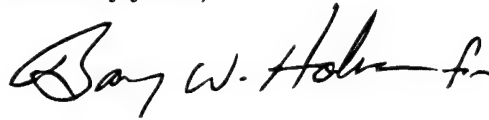
To obtain additional details on DLA's initiatives, we visited Marine Corps Headquarters, Arlington, Virginia; Camp Lejeune Marine Corps Base, Jacksonville, North Carolina; Parris Island Marine Corps Recruit Depot, Beaufort, South Carolina; and Lackland Air Force Base and Wilford Hall Medical Center, San Antonio, Texas. We discussed with logistics personnel and end users at these locations the results of DLA's initiatives, the impacts on supply operations, customer satisfaction, and the approach used for adopting best practices at their facilities. We also visited a company that is as a prime vendor for DOD, and discussed with officials the impact of the initiative on its operations and the feasibility for adopting the concept to encompass a greater part of DOD's operations.

We conducted our review from March to June 1998 in accordance with generally accepted government auditing standards.

We are sending copies of this report to the appropriate congressional committees; the Secretaries of Defense, the Army, the Air Force, and the Navy; the Directors of DLA and the Office of Management and Budget; and other interested parties. We will make copies available to others upon request.

Please contact me on (202) 512-8412 if you or your staff have any questions concerning this report. Major contributors to this report are listed in appendix II.

Sincerely yours,

A handwritten signature in black ink, appearing to read "David R. Warren". The signature is fluid and cursive, with a large initial "D" and "W".

David R. Warren, Director
Defense Management Issues

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Abbreviations

DLA	Defense Logistics Agency
DOD	Department of Defense

Comments From the Department of Defense



ACQUISITION AND
TECHNOLOGY

(L/MDM)

OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON
WASHINGTON, DC 20301-3000

August 20, 1998

Mr. David R. Warren
Director, Defense Management Issues
National Security and International
Affairs Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Warren:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report, "INVENTORY MANAGEMENT: More Information Needed to Assess DLA's Best Practices Initiatives," dated July 17, 1998 (GAO Code 709332/OSD Case 1653). The Department agrees that more information will be required to fully assess DLA's best practices initiatives, but does not agree with the GAO position that the best way to provide this information is to revise the schedule submitted on May 19, 1998. The information provided in that schedule is the best available at this time. Rather than revise the schedule, DLA will provide updates for each of the next two years detailing progress in expanding best practices. This approach offers the advantage of providing actual data, rather than speculation.

The Department's detailed comments on the recommendations are included in the enclosure. The Department appreciates the opportunity to comment on the draft report.

Sincerely,

Roger W. Kallock
Deputy Under Secretary
of Defense (Logistics)

Enclosure



GAO DRAFT REPORT - DATED JULY 17, 1998
(GAO CODE 709332) OSD CASE 1653

"INVENTORY MANAGEMENT: MORE INFORMATION NEEDED TO ASSESS
DLA'S BEST PRACTICES INITIATIVES"

RECOMMENDATIONS

- **RECOMMENDATION 1:** The GAO recommended that the Secretary of Defense direct the Director of DLA to revise its schedule. The GAO noted that for each supply category, the schedule should identify the percentage of future sales and/or percentage of the items managed that DLA projects will be covered by the initiatives, key performance indicators to measure the overall impact the initiatives will have on logistics costs and efficiencies of operations, and plans for expanding or fully implementing the initiatives. (p. 15-16/GAO Draft Report)

DOD RESPONSE: Partially concur. The DoD agrees that additional information will be needed to track DLA's progress toward meeting the requirements of Section 395, but does not agree that revising the schedule is the best way to provide that information. The schedule as submitted represents the best available information at this time. DLA is seeking market-based solutions to meet requirements by using broad statements of needs, rather than detailed specifications or lists of individual items. The specific items that will be covered by an initiative may remain unknown until industry proposals are received and evaluated, and discussions held. The specific performance indicators are also a matter to be negotiated with the contractor. Many initiatives are demonstrations or tests which require a track record of success before additional customers agree to adopt an alternative support method. Rather than revise the schedule, DLA will provide updates for each of the next two years detailing progress in expanding these initiatives during FY 1999 and FY 2000. This approach will offer the advantage of actual data rather than speculation.

- **RECOMMENDATION 2:** The GAO recommended that for prime vendor initiatives in particular, the schedule should provide specific information, including (1) milestones for testing and evaluating each concept, (2) identification of all potential implementation sites, (3) planned dates for implementing the practice at the potential sites, and (4) the projected date that implementation will be completed. (p. 16/GAO Draft Report)

DOD RESPONSE: Partially concur. As discussed in the DoD response to Recommendation 1 above, the DoD agrees that more information is needed, but does not agree that revising the schedule is the best way to provide that information. In the case of

Now on p. 12

Appendix I
Comments From the Department of Defense

prime vendor initiatives, the pharmaceutical, medical, and subsistence prime vendor initiatives have already completed implementation. The clothing and textile prime vendor was tested at one location and will not be expanded beyond that site. For the wood products; maintenance, repair, and operations; and industrial prime vendor programs, the schedule as submitted represents the best available information at this time. These projects are evolutionary in nature and expansion depends on success at test sites and ensuing customer commitment to participate in expanded programs. Rather than revise the schedule, DLA will provide updates for each of the next two years detailing progress in expanding these initiatives during FY 1999 and FY 2000. This approach will offer the advantage of actual data rather than speculation.

Major Contributors to This Report

National Security and
International Affairs
Division, Washington,
D.C.

James F. Wiggins
Robert L. Repasky
Barbara L. Wooten
Karen S. Blum

Chicago Field Office

Matthew B. Lea

Dallas Field Office

Robert D. Malpass

Related GAO Products

Inventory Management: DOD Can Build on Progress by Using Best Practices for Repairable Parts (GAO/NSIAD-98-97, Feb. 27, 1998).

Defense Inventory Management: Expanding Use of Best Practices for Hardware Items Can Reduce Logistics Costs (GAO/NSIAD-98-47, Jan. 20, 1998).

Inventory Management: Greater Use of Best Practices Could Reduce DOD's Logistics Costs (GAO/T-NSIAD-97-214, July 24, 1997).

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